

**REPORT OF  
FINANCIAL EXAMINATION**

**BRINKTOWN FARMERS MUTUAL  
INSURANCE COMPANY**

**AS OF  
DECEMBER 31, 2004**

**STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI**

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November 3, 2005  
Jefferson City, Missouri

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

**BRINKTOWN FARMERS MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 1001 Vienna/Rolla Road (P.O. Box 308), Vienna, Missouri, telephone number (573) 422-6332. This examination began on November 2, 2005, and was concluded on November 3, 2005, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 1999, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2000, through December 31, 2004, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

**Procedures**

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri

prevailed.

### **Comments-Previous Examination Report**

The comments, recommendations, and notes of the previous examination report dated December 31, 1999, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

### **Corporate Records**

**Comment:** It was recommended the Board of Directors put more Company policies in writing, which should be maintained in an up to date manual and made available to Company management and personnel.

**Company Response:** The Company has adopted a policy manual.

**Current Findings:** The Company currently has a policies and procedures manual in place which adequately addresses the business of the Company.

## **HISTORY**

### **General**

The Company was originally established in 1915 as Brinktown Farmers Mutual Insurance Company of Maries County and was incorporated in 1934. The Company is covered by Sections 380.011 through 380.151 RSMo. (Missouri Mutual Insurance Companies).

### **Management**

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the first Saturday in March, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Eight members shall

constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of six members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter, and the directors are compensated \$50 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2004, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Daniel Wansing 14130 Maries Road 607 Dixon, Missouri	Banker/Farmer	2004-2007
Rita Henderson P.O. Box 374 Vienna, Missouri	Self-Employed	2003-2006
Alice Ready 32228 Highway 63 North Vienna, Missouri	Real Estate Agent	2005-2008
Martin Bauer 13158 Rodger Creek Road Dixon, Missouri	Self-Employed/Farmer	2004-2007
Vernon Zimmer General Delivery Brinktown, Missouri	Retired/Farmer	2003-2006
Bob Pendleton 10102 Cottonwood Road Dixon, Missouri	Retired/Farmer	2005-2008

The Board of Directors appoints for a term of one year, a President, a Vice-President, a Secretary and a Treasurer.

The officers of the Company serving at December 31, 2004, were as follows:

Daniel Wansing	President
Martin Bauer	Vice-President
Barbara Bazinet	Secretary
Rita Henderson	Treasurer

### **Conflict of Interest**

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. No amendments have been made to the Articles of Incorporation or Bylaws since the last examination.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed. The minutes and records of the Company appear to properly reflect corporate transactions and events.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$25,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$25,000 and \$50,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$500,000 and an aggregate deductible of \$5,000 each loss.

The Company's purchases errors and omissions liability coverage for its agents with an aggregate limit of \$250,000 and a deductible of \$1,000.

The Company does not own a home office building; however the Company carries insurance coverage on its personal business property and liability coverage on the premises it leases for its home office operations.

The insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company has one part-time employee. No benefits, outside of hourly compensation, are provided by the Company to the employee.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operation**

The Company is licensed by the Missouri Department of Insurance as Missouri Mutual Insurance Company operating under Sections 380.011 through 380.151 RSMo. (Missouri Mutual Insurance Companies). The Company is authorized to write fire and wind insurance in Maries and the adjoining counties in the State of Missouri. The Company writes fire and wind coverages and markets earthquake coverage through a cooperative agreement with its reinsurer. The Company's policies are sold by six agents, two of whom are licensed. For new policies, agents are compensated \$3.00 per thousand dollars of coverage on policies with \$25,000 of coverage or less and \$2.00 per thousand dollars of coverage on policies with greater than \$25,000 of coverage. The agents receive a commission of 10% on renewals.

### **Policy Forms and Underwriting Practices**

The Company uses AAIS and MAMIC policy forms. The policies are written for a five-year period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by the agents and by independent adjusters.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2004	\$1,620,805	\$0	\$196,251	\$310,113	\$40,418	\$(20,076)	\$20,342
2003	1,600,462	0	173,686	87,802	48,496	(5,029)	43,467
2002	1,556,995	0	160,213	30,372	60,252	39,688	99,940
2001	1,457,055	0	148,118	40,273	84,488	28,298	112,786
2000	1,344,269	0	145,554	30,933	62,795	45,858	108,653

At year-end 2004, 779 policies were in force.

## REINSURANCE

### General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Direct	\$ 145,554	\$ 148,118	\$ 160,213	\$ 173,686	\$ 196,251
Assumed	0	0	0	0	0
Ceded	(28,446)	(36,395)	(37,910)	(39,575)	(50,846)
Net	<u>\$ 117,108</u>	<u>\$ 111,723</u>	<u>\$ 122,303</u>	<u>\$ 134,111</u>	<u>\$ 145,405</u>

### Assumed

The Company does not reinsure other companies.

### Ceded

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer) under a single reinsurance agreement for property risks. The per risk excess of loss section of the agreement consists of two layers. Under the first layer, the Company retains \$10,000 per risk and the reinsurer's limit is \$100,000. The second layer retention is \$110,000 and the reinsurer's



limits are \$50,000 for commercial and confinement risks and \$250,000 for all other risks. The reinsurer's combined per occurrence limit for both layers is \$700,000. Risks ceded under the agreement are limited to \$160,000 for commercial and confinement risks and \$360,000 for all other risks. The 2004 premium rate, as a percentage of written premiums, equaled 13% for layer one coverage and 2% for layer two coverage.

The catastrophe excess of loss section of the agreement consists of two layers. Under the first layer, the Company's retention is \$50,000 per occurrence, and the reinsurer's limit is 95% of \$1,000,000 per occurrence. Under the second layer, the Company's retention is \$1,050,000, and the reinsurer's limit is 100% of \$1,000,000. The reinsurer's annual limits are 95% of \$2,000,000 for the first layer and 100% of \$2,000,000 for the second layer. The 2004 premium rate was \$.1032 and \$.062 per \$1,000 total insurance in force for layers one and two, respectively.

The aggregate excess of loss section of the agreement pertains to property risks. The reinsurer is liable for 95% of losses in excess of 75% of the Company's net written premium, with a maximum limit of \$2,000,000. The 2004 reinsurance rate was 3.0% of written premium.

The Company also has a cooperative agreement with Cameron Country Mutual Insurance Company for earthquake coverage. The Company receives a commission of 18% for policies issued under the agreement.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

## **ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on a cash basis. The Company prepares the Annual Statements, statutory reports and tax filings.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

**ANALYSIS OF ASSETS**  
**December 31, 2004**

Bonds (Note 1)	\$ 0
Cash on Deposit	1,559,693
Other Investments (Note 1)	60,000
Furniture and Equipment	1,112
	-----
Total Assets	\$ 1,620,805
	=====

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2004**

Total Liabilities	\$ 0
	-----
Other Surplus	1,620,805
	-----
Total Surplus	\$ 1,620,805
	-----
Total Liabilities and Surplus	\$ 1,620,805
	=====

**STATEMENT OF INCOME**  
**December 31, 2004**

Net Premium	\$ 145,405
Reinsurance Commission	26
Net Losses Incurred	(90,368)
Other Underwriting Expenses	(75,139)
	-----
Net Underwriting Income (Loss)	\$ (20,076)
	-----
Investment Income	\$ 40,418
	-----
Gross Income (Loss)	\$ 20,342
Federal Income Tax	0
	-----
Net Income (Loss)	\$ 20,342
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2004**

Policyholders' Surplus, December 31, 2003	\$ 1,600,462
Net Income (Loss)	20,342
	-----
Policyholders' Surplus, December 31, 2004	\$ 1,620,805
	=====

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 – Other Investments

The Company improperly reported annuity investments on Line 1 “Bonds” rather than on Line 6 “Other Investments.” The annuity balance of \$60,000 was reclassified to “Other Investments.”

### EXAMINATION CHANGES

Total Policyholder’s Surplus Per Company, December 31, 2004			\$ 1,620,805
	Increase in Surplus	Decrease in Surplus	
Bonds	\$ 0	\$ 60,000	
Other Investments	\$ 60,000	(0)	
	-----	-----	
Total Change	<u>\$ 60,000</u>	<u>\$ (60,000)</u>	<u>\$ 0</u>
Total Policyholder’s Surplus Per Examination, December 31, 2004			<u>\$ 1,620,805</u>

### GENERAL COMMENTS AND RECOMMENDATIONS

None.

### SUBSEQUENT EVENTS

None.

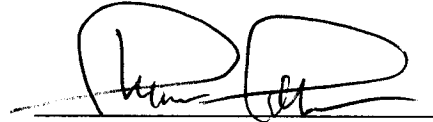
## ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Brinktown Farmers Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri    )  
                              ) ss  
County of Cole        )

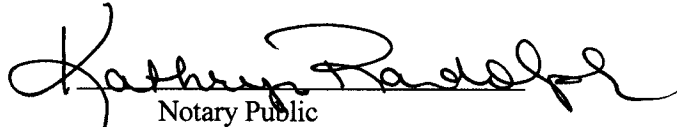
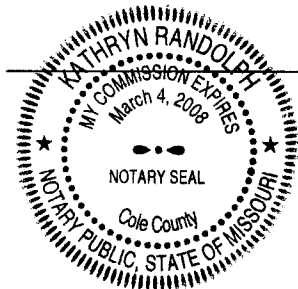
I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Shannon W. Schmoeger, CFE  
Financial Examiner  
Missouri Department of Insurance

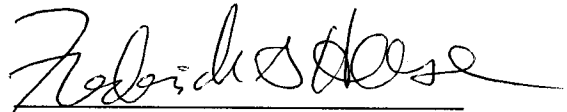
Sworn to and subscribed before me this 14<sup>th</sup> day of December, 2005.

My commission expires:

  
Notary Public

## **SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in black ink, appearing to read 'Frederick G. Heese', written over a horizontal line.

Frederick G. Heese, CFE, CPA  
Audit Manager – Kansas City  
Missouri Department of Insurance